

Academy of Financial Studies (Guarantee) Limited – 2014

The audit of financial statements of the Academy of Financial Studies (Guarantee) Limited (“the Company”) for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of financial activities and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 4 (b) of Paragraph 24 of the Article of Association of the Company. My comments and observations on the above financial statements appear in this report.

1.2 Responsibility of the Board of Directors’ for the Financial Statements

Board of Directors (“the Board”) is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards for Small and Medium-sized Entities (“SLFRS for SMEs”) and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor’s Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor consider internal control relevant to the Company’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board, as well as evaluating the overall presentation of the financial statements.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters describe in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the matters describe in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Academy of Financial Studies (Guarantee) Limited as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium-sized Entities (“SLFRS for SMEs”).

2.2 Comments on Financial Statements

2.2.1 Comply with Sri Lanka Financial Reporting Standards

The following observations are made.

- a) Even though only the income and expenditure relating to the period for which the financial statements are presented should be brought to the accounts, in contrary to that administrative expenses for the year 2013 amounting to Rs.106,988 had been treated as expenditure for the year under review.
- b) Depreciation policy for motor vehicles had not been disclosed as a note to the financial statements.

2.2.2 Accounting Deficiencies

The following deficiencies are observed.

- a) According to the fixed assets register, the value of opening balance of the furniture and fittings received from the Ministry of Finance during the year under review was Rs.54,755,323. However, it was brought to the financial statements as Rs.56,919,578. Hence, a difference of Rs.2,164,255 was observed in audit.
- b) Depreciation for computers amounting to Rs. 73,973 had not been accounted. As a result the profit for the year under review had been overstated by similar amount.
- c) Fixed deposit interest income account and interest receivable account had been overstated by Rs.516,429 and Rs.1,004,333 respectively due to computing error. As such the profit for the year under review had been overstated by Rs.516,429.
- d) Amortization relating to grant assets amounting Rs.34,444 had been excessively calculated and credited to income for the year under review.
- e) Due to erroneous adjustments made to the opening balances of the assets and liabilities belonging to the Miloda Institute function under the Company, the following accounts had been overstated by Rs.2,380,680.

Name of Account -----	Amount -----
	Rs.
Furniture and Fittings	1,082,127
Retained Earnings	679,707
General Fund	339,296
Depreciation for Furniture and Fittings	108,213
Accumulated Depreciation for Furniture and Fittings	171,337

	2,380,680
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3. Financial Review

3.1 Financial Result

According to the financial statements presented, the operations of the Company for the year under review had resulted in a pre-tax net profit of Rs.4,748,242 as compared with the corresponding pre-tax net profit of Rs.6,941,091 for the preceding year thus, indicating a deterioration of Rs. 2,192,849 in the financial results for the year under review as compared with the preceding year. Increase of training programs expenditure and administrative expenses were the main reasons attributed for this deterioration in the financial results.

4. Operating Review

4.1 Performance

According to Section (B) 2(f) of Article of Association, engaging related research and printing of books, journals, reports and such other publications are main objectives of the Company. However, the Company had failed to achieve these objectives during the year under review.

4.2 Management Weaknesses

A sum of Rs.257,505 had to be paid as an interest expense during the year under review due to delaying to settle the electricity bills.

4.3 Idle or Underutilized Assets.

The following observations are made,

- a) Although, the Company had the facilities for train 1,019 officers at a time, it had only conducted 53 training programmes and trained 5,123 officers during the year under review.
- b) Twenty desktop computers and 38 laptop computers had not been utilized even in the year under review.

4.4 Resources Released to Other Institute

A motor vehicle valued at Rs.4,279,691 which was released to the Ministry of Finance on 23 January 2015 had not been shown in the financial statements for the year under review.

4.5 Human Resources Management

The following observations are made.

- a) Without obtaining the prior approval from appointing authority, the Company had extended the contract period of an officer who had released from the Ministry of Finance.
- b) Even though the Organizational Chart and the approved Cadre of the Company should be registered in the Public Enterprises Department in terms of paragraph 9.2 (d) of the Public Enterprises Circular No.PED/12 of 02 June 2003, it had not been done so.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

Even though the Company should present the draft annual financial statements to the Auditor General within 60 days after the closure of the financial year, in terms of paragraph 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the Company had presented its financial statements for the year 2014 for audit only on 23 June 2016.

5.2 Corporate Plan

Even though the approved Corporate Plan of the Company should be furnished to the Auditor General at least 15 days before commencement of the next financial year in terms of paragraph 5.1.3 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the Company had not furnished it to the Auditor General even up to 31 December 2015.

5.3 Budgetary Control

Even though the annual budget should be prepared and copies to be forwarded to the Auditor General at least before 15 days of commencement of the next financial year in terms of paragraph 5.2 of the Public Enterprises Circular No.PED/12 of 02 June 2003, it had not been done within the time period with correct format.

6. Systems and Controls

Deficiencies observed during the course of audit were brought to the notice of the Chief Executive Officer of the Company from time to time. Special attention is needed in respect of the following areas of control.

Areas of Control

Accounting

Audit Observation

- i. Non disclosures
- ii. Erroneous accounting treatment
- iii. Overstatements and understatements in the accounts

Human Resources

- i. Non-compliance with provisions in Public Enterprises Department's Circulars
- ii. Employees had been recruited on contract basis instead of permanent basis.